



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

11-05 Services Agreement between City of Colorado Springs and Memorial Health System

March 2011

Purpose

The purpose of this review was to confirm both parties compliance with the Services Agreement between City of Colorado Springs and Memorial Health System (the Agreement).

Highlights

Based upon our review, we conclude that overall, Medical Network and the City of Colorado Springs were in compliance with the Agreement. However, we verified that the monthly fees were not paid in accordance with the Agreement for the period January 2009 through August 2010, as detailed below.

Memorial Health System doing business as Memorial Hospital Medical Network (Medical Network) provides third party administration and network management services to self-funded employers. At the beginning of 2007 Medical Network entered into a five year contract with the City to provide network access, utilization management, and disease management services under the Services Agreement between City of Colorado Springs and Memorial Health System. These services were provided for a monthly fee based upon the number of participants in the medical plan and a rate established annually through a contract renewal process. In July 2010, City Benefits and Wellness discovered an error related to the rate paid to Medical Network since the beginning of 2009. As a result of the error, Medical Network asked the Office of the City Auditor to perform a review of the monthly network access, utilization management, and disease management fees.

Our review included tests of the specific issue that prompted the review request, as well as overall contract compliance by both parties. The review covered the period January 1, 2009 through August 31, 2010.

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Recommendations

We recommend that City along with Medical Network implement processes to ensure personnel responsible for processing and approving payments or receiving checks are provided with all contract renewals and any associated rate changes. Processes should be in place to ensure these individuals are notified of rate changes prior to the effective date of the new rates.

Prior to issuance of our report, we noted both parties have taken steps to ensure processes are implemented for all appropriate personnel to receive updated contract information in a timely manner. We also noted that a new process was implemented whereby Medical Network submits electronic invoices to the City for monthly payments and the City verifies the accuracy of the invoice data prior to issuing the check.

Management Response

Management was in agreement with the recommendations.

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We noted during our review that the City underpaid its monthly network access, utilization management, and disease management fees to Medical Network for the period January 2009 through August 2010. The total amount underpaid for this period was \$39,024. The error was a result of a rate increase at the beginning of 2009 which was effective for the 2009 and 2010 calendar years. The individuals from both parties who were responsible for processing the monthly fees were not aware of the rate increase. As a result, the underpayment went undetected for a period of time until the error was discovered by the City and reported to Medical Network in July 2010. The total amount owed has since been paid to Medical Network.

Please contact me if you have any questions related to this report.

Respectfully,



Denny L. Nester, MBA CPA CIA CFE CGFM CGAP
Interim City Auditor